

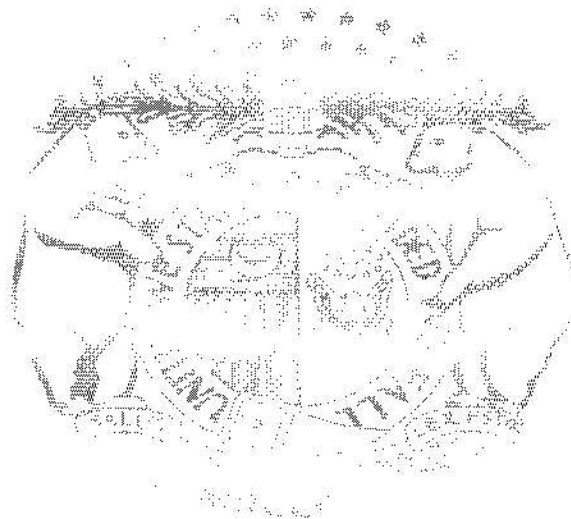
REPORT OF
FINANCIAL EXAMINATION

Missouri Professionals Mutual

As of:

DECEMBER 31, 2008

FILED
SEP 10 2009
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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July 1, 2009

St. Louis, MO

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Merle D. Scheiber, Director
Division of Insurance
State of South Dakota
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Missouri Professionals Mutual

hereinafter referred to as "MPM" or as the "Company". The Company's office is located at 287 North Lindbergh Blvd., St. Louis, Missouri 63141-7849; telephone number (314) 587-8000. Examination fieldwork began on March 2, 2009 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2005, by examiners from the state of Missouri.

The current financial examination covers the period from January 1, 2006 through December 31, 2008, and was conducted by examiners from the state of Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2008.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities included: Investments, Treasury, Premiums, Reinsurance, Claims and Actuarially Determined Liabilities, Affiliated Parties, Debt and Surplus, Taxes, Expenses, and Management and Control.

SUMMARY OF SIGNIFICANT FINDINGS

The Company has greatly improved its financial condition since the previous examination. Premium income has been adequate and the loss reserves were determined to be sufficient. As a result, the Company's surplus has increased by approximately \$15.9 million since the prior examination date.

Several areas where the operations of the Company can be improved were identified as well.

- The board of directors should consider establishing an audit committee.
- All individuals with key responsibilities, not only directors, should sign annual conflict of interest disclosure forms.
- The Company needs to re-evaluate the termination clause in the management agreement and in the policy acquisition agreement.
- The Company should require fidelity coverage for the total amount of premium collected but not yet remitted to the Company.
- The Company should revise its policy acquisition agreement to reflect the actual commissions being paid.

Comments Previous Examination

1. Comment

The Association did not require directors/officers to sign conflict of interest statements. We recommended that the Association require all directors and officers, to execute conflict of interest disclosure statements annually.

Company Response

Please be advised that at the May 26, 2006 Board meeting, the Board approved the use of Conflict of Interest Disclosure Statements for officers and directors of MPM.

Current Findings

The Company obtains conflict of interest disclosures for the directors (which are the officers). These were not obtained in 2007 but were signed as of 2008.

2. Comment

The Association's minutes lacked documentation of the board's approval and understanding of many significant corporate events. All significant transactions should be sufficiently documented to show the board's review and approval of these transactions.

Company Response

At its May 26, 2006 meeting, the Board was advised of the need to better document minutes and board resolutions. The Board agreed to do so.

Current Findings

The minutes adequately reflected review and approval of all significant transactions.

3. Comment

It was recommended that the Management Agreement between MPM and Missouri Professional Management, LLC (MP-Management) be revised to more clearly identify all services provided by MP-Management as well as all fees paid by MPM for services provided. The amount of rent charged to MP-Management for occupancy of MPM's building should be identified separately in the monthly service fee to correctly identify this as income in MPM's financial statements.

Company Response

The Board at its May 26, 2006 meeting agreed to establish procedures to facilitate the allocation of expenses (including lease considerations) between MPM and Missouri Professional Management, LLC. These procedures will include the participation of Brown Smith Wallace as MPM's accounting firm.

However, the Board voted not to amend the current agreement because: a) it was entered into in good faith by the parties at the time of execution; b) an amendment at this time would not be consistent with acceptable and credible business practices; and c) the Board believes that the procedures established per the above paragraph will be sufficient.

Current Findings

The Company indicated that the management agreement will likely be revised in the future. The Department no longer requires a rent charge for use of the building by Missouri Professional Management, LLC.

4. Comment

It was recommended that the Management Agreement between MPM and Missouri Professional Management, LLC (MP-Management) be revised to reflect the best interests of the members of MPM and an arm's length agreement. As such, the agreement should include provisions to allow MPM to withdraw from the contract without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by MP-Management. In addition, MPM should disclose the nature and terms of the termination clause in the Annual Statement, Notes to Financial Statements as prescribed by SSAP No. 27.

Company Response

The Board believes this agreement was entered into in good faith by the parties at the time of execution and that an amendment at this time would not be consistent with acceptable and credible business practices.

Current Findings

The agreement has not been modified or disclosed in the Annual Statement, Notes to Financial Statements. Management recognizes, however, that an adjustment may be necessary, given the growth of the Company and the size of the termination fee resulting from that growth.

5. Comment

It was recommended that the Policy Acquisition Agreement between MPM and Timothy H. Trout, LLC be revised to reflect the best interests of the members and an arm's length agreement. As such, the agreement should include provisions to allow MPM to withdraw from the contract without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by Timothy H. Trout, LLC or Keane Insurance Group. In addition, MPM should disclose the nature and terms of the termination clause in the Annual Statement, Notes to Financial Statements as prescribed by SSAP No. 27.

Company Response

The Board believes this agreement was entered into in good faith by the parties and reviewed by the Department of Insurance. Such an amendment at this time would not be consistent with that agreement and wholesale changes to the agreement are not acceptable business practices. Further, such change would be a material change to the agreed, acted and relied upon consideration for the agreement.

Current Findings

As with the management agreement previously discussed, this agreement has not been modified or disclosed in the Annual Statement, Notes to Financial Statements. Management recognizes, however, that an adjustment may be necessary, given the growth of the Company and the size of the termination fee resulting from that growth.

6. Comment

It was recommended that the Association update its financial institution bond to include the firm managing MPM's operations (Missouri Professional Management, LLC) as a named insured, as this is the legal entity that actually employs personnel acting on MPM's behalf. In addition, MPM should be added as a named insured on the fidelity bond purchased for MPM's protection by its insurance broker (Keane Insurance Group).

Company Response

MPM's sales broker, Keane Insurance Group, maintains fidelity bond coverage. A copy of Keane's certificate of coverage, which is consistent with MDI's recommendations, was forwarded to MDI on July 24, 2006.

Current Findings

The Keane Insurance Group maintains a crime policy with a \$2,000,000 limit. However, the Company is not a named insured on the policy.

7. Comment

We recommended that the Association consider amending its Articles of Association and Bylaws to include an option to allow MPM to assess former members based on the results for years in which they were policyholders. This method would more appropriately attribute operating or special assessments with members who actually incurred the related losses.

Company Response

MPM has reviewed this change and does not believe that this change is in the best interests of the members and former members of the Company.

Current Findings

The Company has not modified its Articles of Association and Bylaws, as it believes that it is not in the best interest of the members.

8. Comment

It was recommended that the Association update its agreement with Carmody MacDonald, P.C. (Carmody) to formalize the terms of arrangements regarding defense services in one service agreement. The agreement should describe all services provided by Carmody and the fees associated with these services.

Company Response

The Board at its May 26 meeting discussed this recommendation. A new engagement letter, consistent with recommendations made by MDI, was approved for Carmody MacDonald. A copy of the engagement letter was supplied to MDI on July 24, 2006. Please note that in addition to Carmody MacDonald, MPM has strategic defense counsel across the state, all of whom are compensated on an hourly basis.

Current Findings

The Company is now performing the claims oversight function internally.

9. Comment

The Association was charging premium rates which were less than the rates filed with the Missouri Department of Insurance to a small number of its policyholders. This practice was in violation of RSMo 383.035.8, which allowed rates in excess of the filed rates (with the member's consent), but did not allow for rates less than the filed rates. The Association should take steps to ensure compliance with RSMo 383.035.

Company Response

This issue has arisen before with the Department, and MPM's belief and position remain the same. For premiums in excess of filed rates, this section requires insured approval; however, no such requirement is made for charges less than the filed rates. MPM's understanding is that Section 383.035 RSMo regulates 383 premiums that are in excess of filed rates and does not regulate premiums that are less than the filed rates. Actually, Section 383.037 otherwise governs the rate requirements, and, in particular for lower rates, Section 383.037(3) would be applicable. Obviously, any lower rates charged by MPM were never in violation of this statute.

Current Findings

From a cursory review, it appeared the provisions relating to premium charges in the current statute, RSMo 383.206, have been met. However, this area is continuing to be monitored by DIFP's Market Regulation division.

10. Comment

The cumulative effect of the examination changes described in the *Examination Changes* and *Notes to Financial Statements* sections of this report decreased the Association's surplus below zero dollars. We recommended that the Association take all steps reasonably necessary to restore its surplus as regards policyholders to at least zero dollars.

Company Response

MPM disagrees with the Examination Changes in the Report of Financial Examination. MPM has differing opinion in several areas. Despite the differences of opinion, MPM remains in a positive surplus, and has also recorded significant strengthening of its reserves since December 31, 2005.

Current Findings

As of December 31, 2008, the Company had surplus in excess of \$13 million. The current examination did not identify any examination changes.

SUBSEQUENT EVENTS

There have been no significant subsequent events since December 31, 2008.

COMPANY HISTORY

General

MPM was issued a Certificate of Authority by the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) to operate as an assessment association under Chapter 383 RSMo, (Malpractice Insurance) on February 24, 2003. The Company commenced business on February 27, 2003.

Capital Stock

The Company operates as an assessment association and is not authorized to issue capital stock. Each member pays an initial assessment of \$100 and is liable for subsequent assessments in accordance with the Articles of Association and Bylaws.

Dividends

The Company has not paid any dividends to members since its inception.

Mergers and Acquisitions

During 2008, the Company formed two subsidiaries, Midwest Professionals Risk Management, LLC and Midwest Professionals Reinsurance, Ltd. Midwest Professionals Risk Management, LLC provides loss prevention and risk reduction strategies for medical professionals throughout the state. Midwest Professionals Reinsurance, Ltd. is a reinsurance company located in the Cayman Islands. There has been no business placed with that company to date.

CORPORATE RECORDS

Minutes of the meetings of the board of directors and annual meetings of the membership were reviewed. The documentation of significant actions had improved significantly since the previous examination. Major corporate decisions were discussed and sufficiently documented in the minutes.

MANAGEMENT AND CONTROL

General

Directors serving at December 31, 2008 were:

<u>Name and Location</u>	<u>Business Affiliation</u>
Timothy H. Trout St. Louis, Missouri	President and Managing Director Missouri Professionals Mutual
Richard T. Meyer St. Louis, Missouri	Corporate Controller (retired) Fru-Con Construction Corporation
John W. Lorei Kansas City, Missouri	Physician Metro Emergency Physicians

Officers serving at December 31, 2008 were:

<u>Name</u>	<u>Position</u>
Timothy H. Trout	President
Richard T. Meyer	Treasurer
John W. Lorei	Secretary

Mr. Trout and Mr. Meyer serve as the Company's investment committee. There were no other active committees.

The Company currently has no audit committee. There are only three board members, but this function is critical, especially since the company is tightly controlled. The board of directors should consider establishing an audit committee. Ideally, the audit committee would be independent of the management of the company and could provide independent attestation of management's financial reporting.

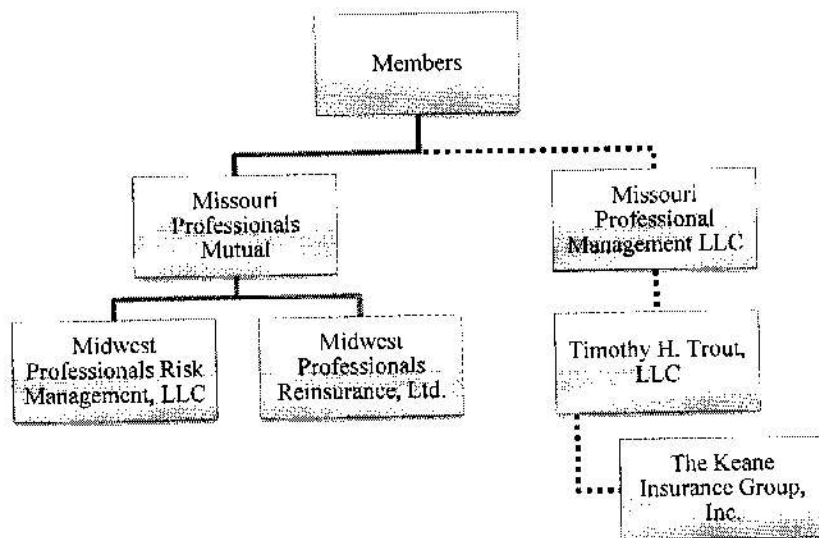
The Company provided signed conflict of interest disclosures for directors (which are the

officers) for 2008. No disclosures were found for 2007. To help ensure continued confidence in the management of the Company, all individuals with key responsibilities, not only directors, should sign annual conflict of interest disclosure forms.

Holding Company, Subsidiaries and Affiliates

Missouri Professionals Mutual was formed under Chapter 383 RSMo (Malpractice Insurance). No other insurance law applies to these types of companies unless the law specifically states it is applicable. As such, Missouri Professionals Mutual is not subject to the insurance holding company requirements, under Chapter 382 RSMo, of traditional insurers.

The Company is subject to the NAIC Accounting Practices and Procedures Manual for financial reporting purposes. SSAP 25 of that manual defines an affiliate as "any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that directly or indirectly, own or control the reporting entity." Being a mutual company, it is owned by its members. However, Timothy Trout controls the Company by virtue of his control of Missouri Professional Management LLC and Timothy H. Trout, LLC. In the organizational chart below, the solid lines represent 100% ownership while the dotted lines represent contractual relationships.



Affiliated Transactions

The Company has entered into various agreements with affiliates including:

Management Agreement

This agreement between MPM and Missouri Professional Management, LLC was approved by the Board on February 26, 2003. Under this agreement, Missouri Professional Management, LLC provides for the management of MPM's operations, including processing of applications, underwriting, premiums and claims. In return for these services, MPM pays Missouri Professional Management, LLC 10% of earned premium. Missouri Professional Management, LLC is to maintain, at its own expense, such equipment, material and experts, as necessary to perform services for MPM.

The Management Agreement contains a termination clause stating that MPM must pay Missouri Professional Management, LLC a termination fee if the contract is terminated for any reason other than mutual agreement. The termination fee, to be chosen by Missouri Professional Management, LLC, is either seven times all amounts paid under the agreement for the twelve months prior to termination or 10% of MPM's premiums during the seven year period commencing with the date of termination. The agreement does not contain any provision for release of this fee due to nonperformance of duties by Missouri Professional Management, LLC.

The Company has grown considerably since it began in 2003. As a result, the termination fee is now quite substantial. As of December 31, 2008, the termination fee would have been just over \$29 million. The Company and Missouri Professional Management, LLC should evaluate this clause in the agreement to determine if it is appropriate for the purpose originally intended. A new agreement should be obtained if it is determined to be in the best interests of the Company.

Policy Acquisition Agreement

This is an agreement between MPM and Timothy H. Trout (an individual) and subsequently assigned to Timothy H. Trout, LLC. The agreement became effective February 28, 2003.

The Company entered into this agreement with Timothy H. Trout to provide brokerage services, including the exclusive right to introduce, solicit, promote and sell all products of MPM. The Company agreed to pay commissions of 10% of premiums for these services. Timothy H. Trout later assigned the duties to be performed by him under this agreement to Timothy H. Trout, LLC. A separate Policy Acquisition Agreement was subsequently entered into between Timothy H. Trout and the Keane Insurance Group, Inc. (Keane) with MPM acknowledging that assignment.

The Policy Acquisition Agreement contains a termination clause similar to the clause contained in the Management Agreement described above. MPM must pay Timothy H. Trout, LLC a termination fee if the contract is terminated for any reason other than mutual agreement. As of December 31, 2008, the termination fee would have been over \$30 million. The terms of the termination fee are substantially similar to the Management Agreement.

Similar to the management agreement previously discussed, the Company's management should evaluate the termination clause in this agreement to determine if it is appropriate for the purpose originally intended. A new agreement should be obtained if it is determined to be in the best interests of the Company.

The Keane Insurance Group, Inc. collects premiums on behalf of the Company and remits those premiums, net of commission, on a monthly basis. At various times, the amount of premium to be remitted can be several million dollars. The Company should require Keane to provide fidelity coverage in an amount equal to the total premium balance outstanding. This will ensure that the Company can be indemnified should any problems arise with the premium funds.

The Company is paying a commission based on the agreement between Keane and Timothy H. Trout, LLC. However, the agreement between the Company and Timothy H. Trout, LLC contains a different commission schedule. The Company should revise its agreement with Timothy H. Trout, LLC to ensure compliance with the existing practice.

Midwest Professionals Risk Management Operating Agreement

This agreement is between MPM and its subsidiary, Midwest Professionals Risk Management, LLC. The agreement became effective on February 19, 2008.

This agreement outlines the duties and responsibilities of the risk management firm and the Company. The risk management firm will provide training and educational opportunities for the Company's insureds. This is designed to lessen the frequency and severity of members' claims. The Company is responsible for all expenses of Midwest Professionals Risk Management, LLC.

FIDELITY BOND AND OTHER INSURANCE

The Company is adequately protected by a crime policy with limits of \$5,000,000 and a deductible of \$50,000. This meets the minimum requirements called for by the NAIC's Financial Condition Examiners Handbook.

The Company also has adequate coverage for the building and contents physical damage, loss of income, general liability, business automobile physical damage and liability, workers' compensation and directors' and officers' liability.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees; therefore, it has no pension plan or insurance benefits for employees.

TERRITORY AND PLAN OF OPERATION

The Company is organized as an assessable mutual insurance company, licensed to write medical malpractice insurance under Chapter 383 RSMo. The Company writes only in the state of Missouri.

Business is produced through the Company's exclusive broker, the Keane Insurance Group. The Company also participates in various promotional activities. Through the Company's subsidiary, Midwest Professionals Risk Management, LLC, insureds are provided an opportunity to learn loss limiting and risk reduction strategies.

GROWTH OF COMPANY

The Company continues to grow in terms of admitted assets and surplus. Premium writings have been stable over the examination period, but the net income generated during this period has allowed the Company to increase admitted assets from \$56.4 million as of the previous examination to \$73.4 million at December 31, 2008. Surplus has increased by \$15.9 during the same time period.

LOSS EXPERIENCE

The Company realized favorable loss experience over the past three years. The ratio of net losses incurred to net premiums earned has declined from 50% at December 31, 2005 to 31% at the end of 2008. Review of the Company's loss and loss adjustment expense reserves found those reserves to be adequate as of the examination date.

REINSURANCE

Premiums reported for the period under examination were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct Premiums Written	\$41,270,790	\$41,213,754	\$41,440,608
Ceded Premiums	<u>0</u>	<u>2,806,661</u>	<u>763,178</u>
Net Premiums Written	\$41,270,790	\$38,407,093	\$40,677,430

As of December 31, 2008, the Company was covered by an excess of loss agreement placed through Resource Intermediaries. This coverage provides for \$5 million in excess of \$1 million coverage for each loss event. The Company has the option to exercise another \$5 million limit if needed. The reinsurance program for 2009 is essentially the same as the one in place at the end of 2008.

The Company commuted its reinsurance agreement each year during the examination period. Based on the level of losses experienced and those anticipated, the Company's management determined that it was financially advantageous to commute the policies and recover the unearned premium.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared based on statutory accounting principles. Accounting entries are recorded on a non-interfaced QuickBooks software program. The Company is currently converting to a commercial application from Ravello that will include all underwriting, policy administration, premiums and claims management functions.

Independent Auditor

The Company is audited by the accounting firm of Kerber, Eck & Bracckel. A review was made of the workpapers of the most recent audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial items reported in the financial statements were certified by James P. Streff, FCAS, MAAA, of Streff Insurance Services.

Consulting actuary Jon W. Michelson, FCAS, MAAA, with Expert Actuarial Services, LLC, was retained by the Department to review the adequacy of reserves and other related liabilities. His report concluded that the Company's reserves as of the examination date were adequate.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

This company is not required to maintain statutory deposits.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2008, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments On Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers.

BALANCE SHEET
As of December 31, 2008

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$48,777,631	\$0	\$48,777,631
Common stocks	5,543,197	0	5,543,197
Properties occupied by the company	2,850,088	0	2,850,088
Cash and short-term investments	4,282,058	0	4,282,058
Other invested assets	3,166	3,166	0
Investment income due and accrued	432,765	0	432,765
Uncollected premiums	9,477,698	0	9,477,698
Net deferred tax asset	2,558,108	623,940	1,934,168
Electronic data processing equipment	69,083	5,255	63,828
Furniture and equipment	262,435	262,435	0
Receivables from affiliates	35,000	0	35,000
Total Assets	<u>\$74,291,229</u>	<u>\$894,796</u>	<u>\$73,396,433</u>
Losses			\$30,807,217
Loss adjustment expenses			8,400,000
Commissions payable			863,332
Other expenses			1,003,027
Current federal and foreign income taxes			340,150
Unearned premiums			17,890,475
Ceded reinsurance premiums payable			38,178
Payable to affiliates			336,523
Total Liabilities			<u>59,678,902</u>
Unassigned funds (surplus)			13,717,531
Surplus as Regards Policyholders			<u>13,717,531</u>
Total Liabilities and Policyholder Surplus			<u>\$73,396,433</u>

INCOME STATEMENT
For Year Ending December 31, 2008

Premiums earned		\$41,169,684
Losses incurred	\$12,727,246	
Loss adjustment expenses incurred	9,412,706	
Other underwriting expenses incurred	13,618,717	
Total underwriting deductions		<u>35,758,669</u>
Net underwriting gain (loss)		5,411,015
Net investment income earned	1,793,844	
Net realized capital gains (losses) less capital gains tax	39,902	
Net investment gain (loss)		<u>1,833,746</u>
Total other income		<u>(1,227)</u>
Net income before federal income taxes		7,243,534
Less: Federal income taxes incurred		<u>2,530,820</u>
Net income		<u>\$4,712,714</u>

CAPITAL AND SURPLUS
Changes for 2008

Surplus as regards policyholders, December 31, 2007		\$9,064,620
Net income	\$4,712,714	
Change in net unrealized capital gains or (losses)	(19,934)	
Change in net deferred income tax	(62,094)	
Change in nonadmitted assets	22,225	
Changes per examination	<u>0</u>	
Net change in surplus for the year		<u>4,652,911</u>
Surplus as regards policyholders, December 31, 2008		<u>\$13,717,531</u>

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

Corporate Records, page 9

The board of directors should consider establishing an audit committee. Ideally, the audit committee would be independent of the management of the company and could provide independent attestation of management's financial reporting.

Corporate Records, page 10

All individuals with key responsibilities, not only directors, should sign annual conflict of interest disclosure forms.

Management Agreement, page 10

The Company and Missouri Professional Management, LLC should evaluate the termination clause in this agreement to determine if it is appropriate for the purpose originally intended. A new agreement should be obtained if it is determined to be in the best interests of the Company.

Policy Acquisition Agreement, page 11

The Company's management should evaluate the termination clause in this agreement to determine if it is appropriate for the purpose originally intended. A new agreement should be obtained if it is determined to be in the best interests of the Company.

Policy Acquisition Agreement, page 11

The Company should require fidelity coverage from the Keane Insurance Group, Inc. for the total amount of premium collected but not yet remitted to the Company.

Policy Acquisition Agreement, page 11

The Company should modify its agreement with Timothy H. Trout, LLC to reflect the same commission schedule as currently being used to pay the Keane Insurance Group, Inc.

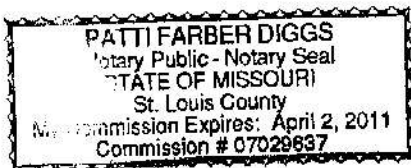
ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Missouri Professionals Mutual during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Boczkiewicz, CFE, CPA, Doug Daniels, AFE, CPA and Andy Balas, CFE, CPA, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Robert P. Jordan
Robert P. Jordan, CFE
Examiner-in-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 4th day of June, 2009
My commission expires: April 02, 2011
Patti Farber Diggs
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael R. Shadowens
Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration



Missouri
Professionals
Mutual

RE EMPOWERING MISSOURI PHYSICIANS

August 20, 2009

Sent via e-mail and US regular mail

Frederick G. Heese CFF, CPA
Chief Financial Examiner and Acting Division Director
301 West High Street, Room 530
P.O. Box 690
Jefferson City, MO 65102

Dear Mr Heese:

This letter is written in response to the comments and recommendations issued by the Missouri Department of Insurance, Financial Institutions and Professional Registration (the "Department") in its report dated July 1, 2009 regarding the Department's examination covering the period from January 1, 2006 through December 31, 2008. MPM acknowledges the findings of the report and concurs with the Department regarding presentation of the financial condition of the company as of December 31, 2008.

The department identified a few operational comments. Below are the company's responses to the comments.

Comment: "The board of directors should consider establishing an audit committee."

Response: The board has considered an audit committee; however, since the board consists of only three directors, the entirety of the board acts in the nature of an audit committee. Further the company has engaged a public accounting firm to provide a full, independent audit opinion every year since inception. For the board to create a separate audit committee would be in itself a superfluous redundancy in the work already being performed by the board as one of its functions.

Comment: "All individuals with key responsibilities, not only directors, should sign annual conflict of interest disclosure forms."

Response: The Company has relied on the checks and balances provided by the business model to create a position which is considered eminently stronger than a conflicts of interest disclosure. However, the Company has engaged its corporate legal counsel to draft an



Missouri
Professionals
Mutual

appropriate conflict of interest statement to be signed, on an annual basis; by those individuals the Company considers having key responsibilities.

Comment: "the Company needs to re-evaluate the termination clause in the management agreement and in the policy acquisition agreement."

Response: The board believes these agreements were entered into in good faith by the parties and reviewed by the Department at the time of execution. At this time an amendment would not be consistent with acceptable and credible business practices. The above referenced termination clauses can have a stabilizing effect on the Company, making it more difficult for any one group or person to sell or otherwise take over the Company. Nonetheless, the board and the parties to the agreements are considering various other options for establishing a continuity plan for key management for the protection of the Company's ongoing interest in case of unexpected events. The board acknowledges the interest of the Department on this matter and intends to investigate the various options over the next several months to reach closure on this issue to the mutual satisfaction of all parties concerned.

Comment: "The Company should require fidelity coverage for the total amount of premium collected but not yet remitted to the Company."

Response: The Company agrees and has rectified the situation.

Comment: The Company should revise its policy acquisition agreement to reflect the actual commissions being paid.

Response: An addendum to commission sharing agreement is being written and should be signed before year end.

Obviously MPM and our partners are pleased with examination results that affirm the financial condition of MPM at December 31, 2008. In closing, I would like to personally commend you, as well as the field auditors for their professionalism during the audit. MPM and our partners made every effort to be professional, informative and cooperative during the course of the examination.

Best regards,

A handwritten signature in black ink, appearing to read "Timothy H. Trout".

Timothy H. Trout
Managing Director



CC: Lawrence V. Niemann, Jr.
L.V. Niemann Consulting Group

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Polsinelli Shughart

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